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**RELATED PARTY TRANSACTION DISCLOSURE:
COMPLIANCE, DETERMINANTS, VALUE-RELEVANCE
AND REAL EARNINGS MANAGEMENT**



ZAHARADDEEN SALISU MAIGOSHI

**DOCTOR OF PHILOSOPHY
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**RELATED PARTY TRANSACTION DISCLOSURE: COMPLIANCE,
DETERMINANTS, VALUE-RELEVANCE AND REAL EARNINGS
MANAGEMENT**



ZAHARADDEEN SALISU MAIGOSHI

**Thesis submitted to
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In Fulfillment of the Requirement for the Degree of Doctor of Philosophy**



**TUNKU PUTERI INTAN SAFINAZ
SCHOOL OF ACCOUNTANCY
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Pemeriksa Luar
(External Examiner)

Assoc. Prof. Dr. Hafiza Aishah Hashim (UMT)

Tandatangan
(Signature)

Pemeriksa Dalam
(Internal Examiner)

Dr. Mohd. 'Atef Md. Yusof

Tandatangan
(Signature)

Tarikh: **30 November 2017**
(Date)

Nama Pelajar
(Name of Student) : **Zaharaddeen Salisu Maigoshi**

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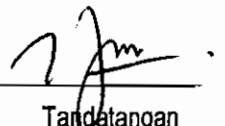
Program Pengajian
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Nama Penyelia/Penyelia-penyelia
(Name of Supervisor/Supervisors) : **Assoc. Prof. Dr. Rohaida Abdul Latif**



Tandatangan

Nama Penyelia/Penyelia-penyelia
(Name of Supervisor/Supervisors) : **Assoc. Prof. Dr. Hasnah Kamardin**



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ABSTRACT

Expropriation through Related Party Transaction (RPT) has been identified as one of the key factors that led to the collapse of several firms globally. Hence, its regulation becomes necessary. This study examines the extent and the determinants of compliance with the disclosure requirements on RPTs by Malaysian listed firms. It also investigates the value-relevance of Malaysian Financial Reporting Standard (MFRS) 124 adoption, real earnings management (REM) in RPTs and the moderating effect of compliance with MFRS 124 on the relationship between REM in RPTs and firm value. The study uses the data collected from the firms with significant RPTs from 2009 to 2015. Findings from the weighted disclosure index indicate a moderate level of compliance with MFRS 124. Furthermore, the regression results reveal that board independence, audit committee financial expertise, family ownership, managerial ownership and firm growth have significant positive relationships with the compliance of MFRS 124. Moreover, the study documents that RPTs disclosure is value-relevant. Findings of price model provide evidence that with the adoption of MFRS 124, capital market participants value the EPS of the RPT firms over its BVPS. The study documents that firms use RPTs to perpetrate REM. The results of the Roychowdhury models show that RPTs firms are characterized by low cash flow from operations, high production costs and low discretionary expenditures. It is also established that capital market discounts the stock price of firms that perpetrate REM in RPTs. Also, compliance with disclosure requirements on RPTs mitigates the negative relationship between REM in RPTs and firm value. The study reveals the need for the relevant authorities to increase the level of enforcement to achieve full compliance which will result to increase transparency of financial reporting and investor protection. The results of this study contribute to the agency, resource dependency and capital market theories.

Keywords: compliance, corporate governance mechanisms, firm financial characteristics, firm value, real earnings management, value-relevance.

ABSTRAK

Pengambilalihan melalui Transaksi Pihak Berkaitan (RPT) telah dikenalpasti sebagai salah satu faktor utama yang menyebabkan keruntuhan beberapa firma di seluruh dunia. Oleh itu, peraturannya menjadi keperluan. Kajian ini mengkaji sejauh mana dan penentu kepatuhan terhadap keperluan pendedahan kepada RPT oleh firma yang disenaraikan di Malaysia. Ia juga mengkaji nilai-relevan Piawaian Pelaporan Kewangan Malaysia (MFRS) 124, pengurusan pendapatan sebenar (REM) dalam RPT dan kesan penyesuaian pematuhan dengan MFRS 124 mengenai hubungan antara REM dalam RPT dan nilai firma. Kajian ini menggunakan data yang dikumpulkan dari firma dengan RPT yang signifikan dari tahun 2009 hingga 2015. Penemuan dari indeks penzahiran berwajaran menunjukkan tahap pematuhan yang sederhana dengan MFRS 124. Tambahan pula, hasil regresi menunjukkan kebebasan lembaga, kepakaran kewangan jawatankuasa audit, pemilikan keluarga, pemilikan pengurus dan pertumbuhan firma mempunyai hubungan positif yang signifikan dengan pematuhan MFRS 124. Selain itu, kajian mendokumenkan pendedahan RPT adalah nilai yang relevan. Penemuan model harga menunjukkan bukti bahawa dengan penggunaan MFRS 124, peserta pasaran modal menilai EPS firma RPT ke atas BVPSnya (nilai buku sesaham). Dokumen kajian mendapati firma menggunakan RPT untuk melakukan REM. Hasil model Roychowdhury menunjukkan bahawa firma RPT dicirikan dengan aliran tunai yang rendah dari operasi, biaya pengeluaran yang tinggi dan perbelanjaan budi bicara yang rendah. Ia juga mendapati bahawa pasaran modal mendiskaun harga saham firma yang terlibat dalam REM melalui RPT. Selain itu, pematuhan terhadap keperluan pendedahan mengenai RPT mengurangkan hubungan negatif antara REM dalam RPT dan nilai firma. Kajian itu mendedahkan keperluan pihak berkuasa yang berkaitan untuk meningkatkan tahap penguatkuasaan untuk mencapai pematuhan penuh yang akan menyebabkan peningkatan ketelusan pelaporan kewangan dan perlindungan pelabur. Hasil kajian ini menyumbang kepada agensi, ketergantungan sumber dan teori pasaran modal.

Kata kunci: pematuhan, mekanisma tadbir urus korporat, ciri-ciri kewangan firma, nilai firma, pengurusan pendapatan sebenar, nilai-relevan.

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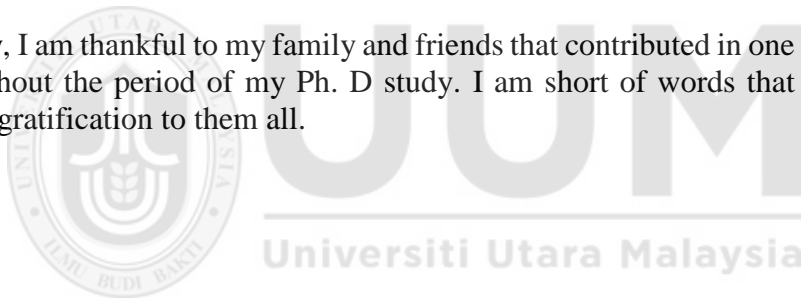


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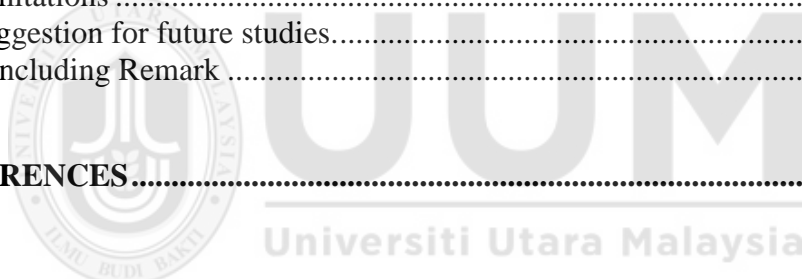
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LIST OF ABBREVIATIONS

ASA	Australian shareholder Association
BMLR	Bursa Malaysia Listing Requirements
BVPS	Book Value per Share
CEO	Chief Executive Officer
EPS	Accounting Earning per Share
FRS	Financial Reporting Standard
GAAP	Generally Accepted Accounting Principles
IAS	International Accounting Standard
IASB	International Accounting Standard Board
IASC	International Accounting Standard Committee
IFRS	International Financial Reporting Standard
ISA	International Standard on Auditing
MASB	Malaysia Accounting Standard Board
MCCG	Malaysian Code of Corporate Governance
MFRS	Malaysian Financial Reporting Standard
MSWG	Minority Shareholder Watchdog Group
MVPS	Market Value per Share
OECD	Organization for Economic Co-operation and Development
RP	Related Party
RPT	Related Party Transactions
SOX	Sarbanes-Oxley Act
Act	Companies Act 1965
UK	United Kingdom
US	United States

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter highlights the contemporary issues pertaining related party transactions (RPTs), corporate disclosure and RPTs disclosure regulations across the world in the background of the study. The chapter explains the problem statements, research questions and objectives of the study. Other headings in the chapter are scope of the study, significance of the study and organization of the thesis.

1.1 Background of the Study

Corporate monitoring, financial transparency and reporting quality have been among the major concerns of policymakers in many nations across the globe (Sierra García, Ruiz Barbadillo, & Orta Pérez, 2012). The collapse of giant corporations like WorldCom and Enron in the United State, Nortel in Canada, Equitable Life Assurance Society in the United Kingdom, Parmalat in Europe, China Aviation Oil in Singapore and alike have pushed political and business leaders to put much interest in regaining and sustaining public trust in capital market (Bauwhede & Willekens, 2008). Since the collapse of these giant corporations, many studies were conducted to find the tool and incentives behind the earnings management practices by the firm and provide possible solution accordingly Xiao (2015). Abusive related party transactions are identified as the key issues that led to the collapse of many multinational corporations such as Adelphia, Enron and Tyco (Munir, Saleh, Jaffar, & Yatim, 2013). Organization for Economic Co-operation and Development (OECD, 2009) claims that the biggest

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Appendix A

Related Party Transactions Disclosure (MFRS 124) Checklist

Paragraph	Sub-paragraph	MFRS 124 Related Party Disclosures	
13		Relationships between a parent and its subsidiaries shall be disclosed irrespective of whether there have been transactions between them. An entity shall disclose the name of its parent and, if different, the ultimate controlling party. If neither the entity's parent nor the ultimate controlling party produces consolidated financial statements available for public use, the name of the next most senior parent that does so shall also be disclosed.	√
14		To enable users of financial statements to form a view about the effects of related party relationships on an entity, it is appropriate to disclose the related party relationship when control exists, irrespective of whether there have been transactions between the related parties.	
	(a)	Percentage of ownership	√
17		An entity shall disclose key management personnel compensation in total and for each of the following categories:	
	(a)	Short-term employee benefits;	√
	(b)	Post-employment benefits;	√
	(c)	Other long-term benefits;	√
	(d)	Termination benefits; and	√
	(e)	Share-based payment.	√
18		If an entity has had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to those in paragraph 17. At a minimum, disclosures shall include:	
	(a)	The amount of the transactions;	√
	(b)	The amount of outstanding balances;	√
	(c)	Their terms and conditions;	√
	(d)	Whether they are secured;	√
	(e)	Details of any guarantees given or received;	√
	(f)	Provisions for doubtful debts related to the amount of outstanding balances;	√
	(g)	The expense recognised during the period in respect of bad or doubtful debts due from related parties.	√

19		The disclosures required by paragraph 18 shall be made separately for each of the following categories:	√
	(a)	The parent;	
	(b)	Entities with joint control or significant influence over the entity;	
	(c)	Subsidiaries;	
	(d)	Associates;	
	(e)	Joint ventures in which the entity is a venturer;	
	(f)	Key management personnel of the entity or its parent; and	
	(g)	Other related parties.	
20		The classification of amounts payable to, and receivable from, related parties in the different categories as required in paragraph 19	√
23		Disclosures that related party transactions were made on terms equivalent to those that prevail in arm's length transactions are made only if such terms can be substantiated.	√

